In this report, we seek to understand the rapidly evolving link between private equity firms and investors, both poised to capitalize on an opportunistic environment. These valuable insights offer a perspective of similarities and differences as seen through the lens of these two communities. We believe these insights will assist CFOs as they institute operating models that position their firms to win the competition for capital.
Executive summary

We are pleased to share our second annual CFO survey of the global private equity industry.

Many believe the overwhelming demand for private equity labels it as the asset class of choice. As the industry positions itself for further growth, private equity firms recognize that investors are focusing on operational excellence as a key differentiator. To address the importance of investors’ perspective, CFOs have been appointed as the senior executives responsible for not only tactically handling today’s issues, but also strategically thinking about tomorrow’s emerging concerns.

First, we would like to extend sincere thanks to those CFOs and investors who gave their time and shared their insights and shaped the direction and development of this survey. Without their input, we would not have such robust results. We believe that it is the dynamic exchange between these two groups that drives and shapes our industry.

Across the industry, private equity firms are preparing for an influx of capital; almost three-quarters of the firms we surveyed plan to raise significant capital in the next two years. They know that performance has been and always will be an investor’s top criterion, and recognizing this, most firms maintain consistent investment strategies, including defined target maturities, investment size and geographic focus. Investment professionals realize uncertainty is not their friend.

But in sharp contrast to the private equity landscape of the past, stakeholders are pressing firms with inquiries regarding regulatory and operational risk management, as well as the transparency of communications. One might even say that investors have added a new layer — proven operational excellence — to their definition of “performance.” To truly compete as best in class, private equity firms must now demonstrate that their front, middle and back offices all are operating effectively, as well as efficiently. CFOs that skillfully manage the inherent risks of rapid growth will become legitimate difference-makers and create competitive advantages for their firms.

**Regulatory: managing risk**

Building and maintaining excellence requires the CFO to move beyond traditional operations, a transition that began several years ago as regulators increased their scrutiny of the private equity industry in the wake of the financial crisis. Today, the CFO is asked to master the intricacies of operational and regulatory risk, portfolio monitoring and valuation, as well as direct interaction with investors.

In recent years, CFOs have been spending more time than ever dealing with regulators, including the US Securities and Exchange Commission (SEC). Although CFOs believe that regulatory issues will no longer consume the vast majority of their time, compliance will remain a core concern. Investors are increasing their focus on private equity firms’ fiduciary responsibilities, and regulators continue to sharpen their examinations of the industry. On the global front, the European Union’s Alternative Investment Fund Managers Directive (AIFMD) promises to increase the compliance burden, with many private equity firms and investors yet to truly assess its impact on their business activities.

The SEC’s continued interest in expense allocations, as evidenced by the continual increase in its public comments on the topic, is cause for concern among private equity firms. CFOs would be wise to make sure that they have the right policies and procedures in place — and the documentation to back them up. At the same time, CFOs are being asked to mitigate, if not eliminate, operating risks. Top among those risks is cybersecurity, which is a pressing issue for regulators, but even more urgent for the business: protecting confidential information involving investments, investors and the private equity firm itself has quickly developed as a fundamental issue.

**Reporting: the critical link**

The mandate is clear: private equity firms that report in a transparent, timely and reliable fashion will demonstrate operational excellence. Reporting is more than the critical link between private equity firms and investors; it’s also the most prominent area for firms to gain a competitive advantage.

As the burden of portfolio monitoring increases, the CFO and the finance team are being asked to automate a process that, for many, is still spreadsheet-driven. Investors want granular information concerning valuations. They want detailed explanations of inputs, assumptions and formal approvals. In general, they want to increase their comfort level by developing a complete understanding of how private equity firms operate behind the scenes.

Investors’ desire for more robust and more customized reporting only increases the CFO’s workload. Investors have little patience for information that moves slowly, with nearly all indicating they want quality data — fast. Three-quarters of investors want tax reporting within four months after year-end, an accomplishment that could place a private equity firm head and shoulders above the average. Overall, private equity firms expect requests for customized reports to increase with incremental asks for both quality and quantity. As the primary channel
of communication with investors, CFOs who master the complexities of timely and transparent reporting have a right to celebrate a job well done.

**Making the best use of resources**

Investor demands and requests of private equity firms engaged in due diligence will only increase; CFOs must optimally manage their teams to meet these rising expectations. This entails looking at new technology and new processes, including outsourcing. Investors clearly expressed comfort with private equity firms moving to an outsourced model for tactical areas, including tax and fund accounting. Investors would prefer compliance, investor relations, portfolio analysis and valuation to remain in-house, but are not against exploring them as third-party functions.

For those functions that remain in-house, merely adding headcount will not address the capacity challenges at hand; technology solutions might. Most understand that transparent and timely reporting is data-driven and process-oriented. The operations of private equity firms that are data-centric and defined by superior management, analysis and digital presentation of information will find success. Unquestionably, innovation and optimization, implemented according to each firm’s needs and capabilities, will allow businesses to scale, minimize resource constraints and enable CFOs to focus on strategic priorities.

CFOs, in extending their focus, face a series of challenges. The first is infrastructure. The second, closely related, is resources. With spreadsheets and manual processes prevalent, private equity firms are generally limited in their ability to respond to the rising tide of reporting requests. With finance teams’ headcounts not generally keeping pace with increases in responsibilities, implementing the right policies and procedures for given circumstances is likely to require a reallocation of resources – especially as assets under management increase.

**Getting in position**

As private equity assumes its role as the asset class of choice, the role of the CFO is growing exponentially more complex and important. CFOs have been tasked with optimizing traditional finance functions, vital to the success of the firm, and as investors have clearly acknowledged, CFOs have a mandate to extend their reach into the new definition of performance – one that is based on proven operational excellence. To conquer these formidable challenges, CFOs must move beyond tactical actions to strategic priorities. This year’s survey reveals one area where investors and private equity firms are in agreement: both value the CFO more than ever. We are convinced that CFOs will skillfully position their firms to win the competition for capital.
Competition for capital
Private equity is the asset class of choice

To what asset class are investors most and least likely to allocate capital?

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Most likely</th>
<th>Least likely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private equity</td>
<td>46%</td>
<td>3%</td>
</tr>
<tr>
<td>Real estate</td>
<td>26%</td>
<td>3%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Natural resources</td>
<td>13%</td>
<td>30%</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>5%</td>
<td>54%</td>
</tr>
</tbody>
</table>

Investors have clearly indicated that they are most likely to allocate capital to private equity compared to other alternative asset classes. This represents a clear change from the past several years. Today, investors find value in investing not only in private equity, but also in alternative asset classes that are traditionally coined as “hard assets.”

In today’s regulated environment, valuation remains at the forefront of an investor’s mind during the investment decision process. Private equity, real estate and infrastructure and, to some extent, natural resources can provide investors with a degree of comfort because the intrinsic value of their underlying portfolio is based on hard assets. As investors increase their efforts on due diligence and overall portfolio risk, it is clear that there is some benefit derived from having a portfolio with tangible assets. As investors decide how to allocate their capital, private equity firms will need to consider the right balance of portfolio diversification in order to attract new capital.

“Performance opens the door. To win, we must demonstrate why investors should allocate capital to us.”
The majority of investors are allocating more than 10% of their capital to private equity, and almost two of every five investors (39%) are allocating more than 25% to private equity. This is a testament to the performance and resilience of private equity both during and after the financial crisis.

In addition, almost half of the investors plan to increase their allocation to private equity in the next two years. The most successful private equity firms have demonstrated their ability to continue to create value in their investments, and they have crystallized the value of many deals completed before the crisis. The private equity firms that can demonstrate their commitment to creating value at their portfolio companies and also distribute existing capital to investors will have a competitive advantage as investors look to deploy new capital.

“*We want to allocate capital to private equity firms with proven strategies.*”

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**Investors’ growing appetite for private equity**

What percentage of capital are investors currently allocating to private equity?

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Percentage of Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%–5%</td>
<td>19%</td>
</tr>
<tr>
<td>6%–10%</td>
<td>22%</td>
</tr>
<tr>
<td>11%–25%</td>
<td>20%</td>
</tr>
<tr>
<td>&gt;25%</td>
<td>39%</td>
</tr>
</tbody>
</table>

How are investors expected to change capital allocations to private equity in two years?

- Increase: 46%
- Decrease: 4%
- No change: 4%
- Opportunistically: 46%
The capital markets have roared back from their nadir of roughly five years ago. According to CFOs, the private equity industry’s assets under management have increased year after year since 2010. With the industry-wide portfolio value increasing steadily and plenty of dry powder to invest, the level of private equity assets under management is as high as it has ever been.

Today’s investors are looking beyond private equity firms’ track record. Performance will always remain the leading criterion, but it’s no longer the only factor in the investment decision.

The combination of a growing pool of investor capital and private equity firms’ push to capitalize on opportunities has created a competition for capital in which CFOs will play a critical role.

“We are growing and accessing new sources of capital.”

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Operational excellence
What keeps investors up at night?

- Tax-efficient
- Investment advisors
- Results
- Financial data
- Integrity
- Retention
- Key person
- Expense allocation
- Fees
- Future
- Fraud
- Accounting methods
- Compliance
- Investors
- Foreign jurisdictions
- Commitments
- Culture
- Continuous
How does this time compare to the time investors dedicate to monitoring other asset classes?

How important to investors is meeting private equity finance teams?

What percentage of investors’ time is dedicated to monitoring private equity?
Investors receive, analyze and act on information

What actions are taken by investors with financial and due diligence information received from private equity firms?

<table>
<thead>
<tr>
<th>Action</th>
<th>Financial</th>
<th>Due diligence</th>
</tr>
</thead>
<tbody>
<tr>
<td>File for future reference</td>
<td>83%</td>
<td>67%</td>
</tr>
<tr>
<td>Perform portfolio analytics</td>
<td>67%</td>
<td>57%</td>
</tr>
<tr>
<td>Benchmark</td>
<td>57%</td>
<td>41%</td>
</tr>
<tr>
<td>Provide to C-suite</td>
<td>28%</td>
<td>39%</td>
</tr>
<tr>
<td>Provide to Board</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Provide to consultant</td>
<td>15%</td>
<td>15%</td>
</tr>
</tbody>
</table>

"The due diligence process does not capture every detail — there has to be a great level of trust."

Investors want to know more – in some cases, much more – about how a firm conducts its business. They want to know how private equity firms monitor and value their portfolio companies, how they manage and mitigate risks, how they optimize resources, and how they report to investors. They are looking to invest in firms that demonstrate this operational excellence.

Knowing that a majority of investors are using the information they currently receive for comparison or analysis, CFOs can work to provide investors with data that is accurate and complete. Private equity firms that provide meaningful, reliable data for analysis can gain a competitive edge. By building comprehensive processes to capture and present the data investors want, CFOs can help build trust between the private equity firm and the investor.
Investors assess current operating risks

What are the most important current due diligence categories and sub-categories to investors?

Investors want to know that the private equity firm has the experience and ability to handle risk. They want to know that the private equity firm is living up to its fiduciary responsibilities. They want to understand how the private equity firm operates the business. In short, they want to be comfortable with their investment decision.

Investors know that the potential conflicts of interest are real and significant and not easily mitigated. Lack of transparency and limited investor rights long have been the norm in private equity, and many limited partnership agreements precluded investors from requesting the information they needed to adequately monitor their investments and the private equity firm’s operations. This is changing rapidly. Today, more and more firms are pushing very important information to their investors, with the idea that more transparency is best for both parties.
As many private equity firms expand their services and offerings beyond traditional private equity, some may struggle with the new business model and its inherent complexities and potential conflicts of interest.

The rise of co-investments and separate accounts has fueled much of the recent growth in private equity — and led to an increased focus on expense allocations. Some investors are concerned that expenses are not being allocated appropriately to such separate accounts, forcing other funds to shoulder the expense burden.

Investors are also concerned about the possibility that reduced returns might put pressure on private equity firms’ carried interest, which could lead firms to levy additional fees or shift expenses to make up the shortfall.

For these reasons and more, investors are looking to learn as much as they can about private equity firms before making their investment decision. Private equity firms can expect expanded information requests and a focus on consistent investor due diligence to become the norm — and CFOs can expect their workload to expand accordingly.

"The amount of information requested was a huge leap from the last time we raised a fund."

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Regulatory
As a result of Dodd-Frank’s requirement that most investment advisors register with the US SEC, regulators have clearly increased their scrutiny of private equity. For over two years, the staff has been conducting private equity Presence Exams of advisors with the goals of establishing “a presence with the PE industry” and better assessing “the issues and risks presented by its unique business model.”

The increased regulatory scrutiny and the accompanying burden show no sign of lessening; according to CFOs, examinations have increased by 13 percentage points from the previous year. The dual challenge of meeting regulatory and investor expectations has led to an expansion of the CFO’s duties and responsibilities. As they add responsibilities, CFOs might want to consider how best to align the private equity firm’s operations with regulatory expectations. Meeting regulatory requirements efficiently and effectively is a key element of operational excellence.

Regulators intensify scrutiny

Have Registered Investment Advisors been subject to an audit or examination in the past two years?

2013
- Yes: 72%
- No: 28%

2014
- Yes: 59%
- No: 41%
Expense allocations are front and center

How have investors focused on expense allocations in the past year? How are they currently focused, and how do they expect to be focused in the next two years?

Have private equity firms modified expense allocation policies, procedures or documentation in the past two years?

“We consistently evaluate our expense allocation policies. These policies are not fixed, they are fluid.”

In May 2014, Andrew Bowden, Director of the SEC’s Office of Compliance Inspections and Examinations (OCIE), delivered a speech titled “Spreading Sunshine in Private Equity.” As a point of emphasis, Mr. Bowden stated: “By far, the most common observation our examiners have made when examining private equity firms has to do with the advisor’s collection of fees and allocation of expenses. We have identified what we believe are violations of law or material weaknesses in controls over 50% of the time. This is a remarkable statistic.” Interestingly, more than half of private equity firm respondents reported that they have not modified their expense allocation policies and procedures over the past two years.

To meet the growing scrutiny, private equity firms not only must establish and maintain the proper policies and procedures but also be able to demonstrate that those policies and procedures are in place. Private equity firms are being challenged to make sure that they meet the SEC’s documentation requirements, which go hand in hand with investors’ demands for increased transparency. These duties fall to the CFO, for whom compliance is and will remain a concern of paramount importance.
In January 2012, Bruce Karpati, then Chief of the SEC's Asset Management Unit, clearly stressed the importance of allocating fees and expenses fairly. He highlighted an enforcement action concerning the misallocation of expenses by a private equity fund advisor. In the past two years, the focus of regulators and investors on expense and fee allocations has made it clear they want more information with better transparency.

The gap between what investors are seeking and what private equity firms are providing is shrinking. The trend is unmistakable. To continue to respond effectively, private equity firms generally should consider if their fund documents clearly and adequately disclose the allocation of expenses, if they consistently apply these allocations, and if the firm has the appropriate controls to monitor and measure allocation policies and procedures.

**Investors seek more transparency on expense allocations**

How are private equity firms allocating expenses between funds and investment advisors?

<table>
<thead>
<tr>
<th>Expense Category</th>
<th>Funds</th>
<th>Advisor</th>
<th>Shared</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broken deal</td>
<td>80%</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>Annual meeting</td>
<td>74%</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>Directors' and officers' insurance</td>
<td>53%</td>
<td>14%</td>
<td>33%</td>
</tr>
<tr>
<td>Investor portal</td>
<td>53%</td>
<td>40%</td>
<td>7%</td>
</tr>
<tr>
<td>Valuation tools</td>
<td>37%</td>
<td>55%</td>
<td>8%</td>
</tr>
<tr>
<td>Consultants and operating partners</td>
<td>22%</td>
<td>59%</td>
<td>19%</td>
</tr>
<tr>
<td>Compliance</td>
<td>5%</td>
<td>89%</td>
<td>6%</td>
</tr>
</tbody>
</table>
Investors focus on advisor expenses

What expense allocations are investors most and least satisfied with in regard to transparency?

- **Annual meeting**
  - Most satisfied: 33%
  - Least satisfied: 27%
- **Third-party administrator**
  - Most satisfied: 24%
  - Least satisfied: 9%
- **Broken deal**
  - Most satisfied: 18%
  - Least satisfied: 10%
- **Consultants and operating partners**
  - Most satisfied: 38%
  - Least satisfied: 16%
- **Travel**
  - Most satisfied: 9%
  - Least satisfied: 16%

“IT'S FAIR TO SAY THAT THERE'S MORE WORK TO BE DONE IN THE PRIVATE EQUITY INDUSTRY TO BRING THE TRANSPARENCY OF EXPENSE ALLOCATIONS IN LINE WITH INVESTOR EXPECTATIONS. IN GENERAL, PRIVATE EQUITY FIRMS ARE DOING A GOOD JOB IN DISCLOSING EXPENSES PAID BY THE FUNDS. STILL, INVESTORS, POSSIBLY CONCERNED WITH HIDDEN FEES, ARE INTERESTED IN ADDITIONAL TRANSPARENCY AROUND EXPENSES TYPICALLY PAID BY THE INVESTMENT ADVISOR.

EXPENSE TRANSPARENCY ISSUES WILL ALMOST ALWAYS DEVELOP. HOW INVESTORS VIEW A FIRM’S RESPONSE WILL IN LARGE PART DEPEND ON WHETHER FINANCE AND COMPLIANCE TEAMS NOT ONLY ARE IDENTIFYING CHALLENGES BUT ALSO MEETING THEM. THOSE PRIVATE EQUITY FIRMS THAT CAN DEMONSTRATE A COMMITMENT TO PROVIDE ACCURATE, RELIABLE AND TIMELY INFORMATION AROUND EXPENSE ALLOCATIONS ARE LIKELY TO ATTRACT THE RIGHT KIND OF ATTENTION FROM INVESTORS.

WHEN PRIVATE EQUITY FIRMS INCLUDE THE FINANCE TEAM IN IMPORTANT INVESTOR MEETINGS, THEY TEND TO BE MORE EFFECTIVE IN HANDLING THE CHALLENGES THAT INVESTORS OFTEN BRING TO THE TABLE.

"THE RECENT FOCUS ON EXPENSE ALLOCATIONS IS A WAKE-UP CALL TO THE INDUSTRY."
CFOs expect to focus more on cybersecurity

“The constant threat of cyber attack is real, lasting and cannot be ignored.” – SEC Commissioner Luis Aguilar, at the SEC Cybersecurity Roundtable, 26 March 2014

The SEC’s Office of Compliance Inspections and Examinations included information security as an examination priority for 2014. The SEC has said it will focus broadly on information security policies and standards to prevent, detect and respond to cyber attacks and identity theft; the resources dedicated to the cybersecurity function; third-party service provider oversight; training and awareness; and cybersecurity breach disclosure capabilities.

It has become unquestionably important to make sure that private equity firms, investors, regulators and other stakeholders understand the real threat to cybersecurity. Private equity firms hold large amounts of confidential information of various kinds. It is essential that firms are aware of salient cyber risks and what they can do to help protect their data, their clients and their reputation.

Those charged with the oversight of information have the reputations of the firm and its investors on the line. Those reputations depend on the firm’s people making the right choices and taking the right actions at all times.

Who is responsible for overseeing information security at private equity firms?

How have private equity firms addressed cybersecurity risks in the past 12 months? How do they expect to address these risks in the next 12 months?
Dealing with cloud and social media risks

Are private equity firms restricting access to the internet outside of the office?

- Yes: 26%
- No: 74%

Are private equity firms satisfied with current information security policies, procedures and documentation?

- Yes: 73%
- No: 27%

Are private equity firms currently monitoring social media use outside of the office? Are they expecting to monitor it in the next two years?

<table>
<thead>
<tr>
<th></th>
<th>Currently</th>
<th>In two years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>16%</td>
<td>37%</td>
</tr>
<tr>
<td>No</td>
<td>84%</td>
<td>63%</td>
</tr>
</tbody>
</table>

“Our cybersecurity measures have become stricter. We require that our vendors demonstrate their systems are secure.”

There has been a significant increase in the business adoption of new technologies that increase both collaboration and the flow of important information into and out of the organization. These advances have extended the virtual boundaries of the enterprise, blurring the lines between home and office and coworker and competitor by providing constant access to email, enabling new mobile business applications and allowing the access to, and storing of, sensitive company data.

While these new technologies represent an opportunity for IT to deliver significant benefits to an organization, they also mean new risk. Cyber attacks, data loss, application vulnerabilities, external and internal access to sensitive and confidential information, and the increased use of external service providers – it’s a real challenge to keep on top of the ever-changing risk.

It is critical to assess the means by which many of these risks may be mitigated through technical device controls, third-party software and organizational policy. These components all contribute to an enterprise-grade mobility management program that will ultimately serve as a guide in the rapidly evolving digital environment.
The AIFMD alters the regulatory landscape

Are the AIFMD passport marketing rules expected to impact private equity firms in the next two years?

- Yes: 67%
- No: 33%

How is the AIFMD affecting business activities of private equity firms?

- Little to none: 20%
- Moderately: 30%
- Significantly: 50%

Where in the European Union are private equity firms expecting authorization to become an AIFM?

- Western: 17%
- Eastern: 78%
- Central: 5%

Will the AIFM be an affiliate or a third party?

- Affiliate: 31%
- Third party: 69%
Private equity firms recognize the need for timely and transparent reporting

How do private equity firms believe they could improve investor reporting?

- Transparency: 66%
- Timeliness: 50%
- Frequency: 12%

The rapid growth of private equity and the increasing complexity of investment structures have created pressure on the operating model of private equity firms to keep pace. As the regulatory landscape evolves and investors’ perspectives shift, investors are increasingly asking private equity firms to enhance transparent and timely reporting.

Investors and regulators want information that will help them best assess performance and identify risk. To some extent, they believe that improved reporting standards will lead to operational efficiencies because enhanced reporting will require firms to improve their controls and data management – both of which can lead to faster and better investment decision-making.

Private equity firms with the right executive support, infrastructure and technology will find themselves well placed to gain an advantage, rather than fall behind, as reporting demands continue to expand.

“We provide transparent information to investors. We have no intention of taking a step back.”
Transparency starts with valuation

How satisfied are investors with private equity firms' valuation reporting?

<table>
<thead>
<tr>
<th>Methodologies</th>
<th>Portfolio company events</th>
<th>Timeliness</th>
<th>Explanation of inputs and assumptions</th>
<th>Changes in assumptions</th>
<th>Valuation committee approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>69%</td>
<td>60%</td>
<td>56%</td>
<td>40%</td>
<td>31%</td>
<td>31%</td>
</tr>
</tbody>
</table>

The majority of investors, while generally satisfied with the reporting of methodologies and portfolio company events, are also seeking to understand the key assumptions and inputs driving valuations. They are asking for better explanations of inputs and assumptions and enhanced information around formal approvals from the valuation committee. Investors want to know that senior executives from the firm are involved in the approval of valuations, and they also want to understand the consistency of the valuation process at quarter-end compared to year-end.

This push for more information around valuation drivers adds to the organizational burden shouldered by private equity firms’ middle-office and finance teams. As investors gain a better understanding of valuation drivers, the bar for valuation review inevitably will rise. As this occurs, firms will be required to exercise considerable judgment as they are pressed to provide granular information that goes beyond the relatively quantitative reporting of portfolio companies’ financial results.
Historically, it has been the role of the investment teams to manage portfolio investments at the time of purchase, through value creation, and then at divestiture. In many cases, the finance team was primarily responsible for managing operations. But as regulators and investors request more and more information typically generated by the middle office, the finance function has been asked to take on more responsibility.

Now, as private equity firms work to increase their transparency around valuations, CFOs are playing a role in developing and maintaining a more integrated valuation process, working with the investment professionals to collect and document the information needed to improve valuation analytics and reporting.

The integration of the finance team is relatively new, and the level of involvement remains slight to moderate. Over time, the involvement of finance in middle-office functions will increase as investment professionals will add significant oversight and review of the CFO and the middle office during the integrated process.

Once the CFO and the finance team, the middle office, and the investment professionals are integrated in the portfolio monitoring process, investors will see the transparency of valuation come to life.

“The role of the CFO is expanding. We have to be experts in multiple business activities.”

Firms take an integrated approach to portfolio monitoring

Are private equity firms integrating investment and finance teams to monitor portfolio investments?

How are private equity firms involving CFOs and finance, middle-office and investment teams in monitoring portfolio companies?
Investors want more data on both portfolio and fund investments

What investment activity is currently received by investors as part of private equity firms’ reporting? What is preferred?

How are private equity firms reporting investment performance and activity to investors?

Investors are not just focused on investment activity at the fund level; they want to know more about portfolio company investments on a more frequent and granular basis. With a moderate disparity between private equity firms’ reporting and investor expectations, investment performance and activity continue to be top of mind.

In addition to receiving valuation metrics on a quarterly and annual basis, investors want to gain a better understanding of the factors impacting the creation of value of a portfolio company over its life cycle.

Private equity firms will need to look for ways to respond to this increase in reporting without creating an additional burden on the middle-office and finance resources. CFOs at private equity firms that rely heavily on spreadsheets and manual processes may want to explore whether their firm can adopt or incorporate new technologies to help it analyze, collect and report portfolio data in a more timely and efficient manner.
Transparency is common in co-investments

How transparent are co-investment sponsors when reporting to participant private equity firms?

- Quarterly reporting; audited financial statements; valuation assumptions and inputs: 73%
- Audited financial statements only: 27%

Are private equity firms fully independent or fully reliant on sponsors’ co-investment values?

- Fully independent: 60%
- Fully reliant: 40%
Investors appreciate third-party valuation specialists

Do investors value the engagement of third-party specialists as part of the private equity firm’s valuation process?

Yes 86%

No 14%

Are private equity firms recognizing that investors value third-party specialists in the valuation process?

Yes 26%

No 74%

“We use external valuation experts for assurance.”

Investors have made it clear that they would like to see private equity firms use third-party valuation specialists. They may feel third-party valuation specialists add a level of independent review that enhances a firm’s control environment by helping to make sure that the inputs, assumptions and methodologies involved in valuation are applied consistently.

In contrast, the large majority of private equity firms do not appear to agree. Most feel that their investment professionals and finance teams have the best perspective of portfolio company events and other relevant data points, and they are comfortable with the governance of valuation committee and executive involvement.

Still, the use of third-party specialists by firms may increase over time not only due to the request of investors, but also because such specialists might serve as an enhanced control that creates capacity for finance teams to perform additional investment-related functions.
Financial reporting beyond valuation could improve

How do investors believe private equity firms could improve financial reporting beyond valuation?

How many investors are private equity firms providing with financial reports?

Private equity firms understand that investors are looking for additional transparency and increased timeliness in both the financial and tax reporting process. Similarly, when it comes to financial reporting, transparency of information is top of mind for investors, and there is less focus on the timeliness of receipt of information.

Reporting is a time-consuming process for the finance team, and this time spent will only increase as a direct result of the additional transparency being driven by investors and the increasing number of investors investing with private equity firms.

In the coming years, it will be critical for private equity firms to enhance the level of transparency that they are providing to investors, as those firms that are quick to improve their reporting will be better positioned to benefit from the increasing allocation of capital into private equity.

“I absolutely have more investor requests. It’s not a headache, it’s my job.”
Timely tax reporting makes a difference

How often are investors currently receiving financial and tax reporting from private equity firms? What is preferred?

How long after year-end are investors currently receiving tax information from private equity firms? What is preferred?

Mindful of inquiries from investors, private equity firms have enhanced their tax reporting processes. Almost 70% of investors prefer annual tax reporting and 16% prefer quarterly reporting, a noticeable increase from the 7% currently providing quarterly tax reporting.

Perhaps in the future, CFOs will enhance the frequency of tax reporting; however, they will also need to assess the cost and availability of tax data in order to make the quarterly reporting meaningful. Over 75% of private equity firms would like to receive tax compliance reporting in less than four months after year-end; just 31% of firms currently meet this expectation.

The delay in tax compliance reporting could be due to the CFO’s decision to avoid the use of tax estimates or because the finance function faces constraints in obtaining timely and accurate information from portfolio companies. Many firms hold investments in portfolio companies through pass-through entities; to prepare a firm’s K-1, the finance team needs the K-1s from these investments. Delays at the portfolio company level thus delay the entire process.
Investors continue to request customized reporting in order to monitor their portfolios and manage risk. As the supply of capital increases, each investor has a unique approach in monitoring that capital, and that approach continues to evolve. Going forward, the private equity firms that provide best-in-class, transparent and timely reporting will differentiate themselves from other private equity firms with similar performance metrics.

However, to provide "white glove" service to investors, a firm’s founding partners and leadership teams will turn to the finance department to satisfy investor requests – and expect a response to the investor within a very short amount of time. CFOs are constantly shifting gears to meet these one-off requests, which require significant time and effort as opposed to an automated solution.

Almost two-thirds of investors sought customized reporting from the private equity firms throughout the year. Each of those investors is requesting, on average, up to four customized reports. To satisfy those requests accurately and in a timely fashion, private equity firms must develop the right balance of people, process and technology for their firm.
Additive reporting burden expected to increase

How many times per year are requests for customized reports received by private equity firms?

- 1%–10%: 73%
- 11%–25%: 22%
- More than 25%: 5%
- No increase: 3%

By what percentage do investors expect to increase their requests for customized reports from private equity firms?

- 1%–10%: 15%
- 11%–25%: 22%
- More than 25%: 13%
- No increase: 5%

“From just the number of side letters negotiated, we believe that specialized requests will increase.”

As investors increase their portfolio monitoring teams, they are identifying better ways to analyze data to make their next investment decision. Investors are using both formal arrangements through side letters and informal arrangements to obtain this information.

The vast majority of private equity firms report receiving up to 25 customized reporting requests annually, which is greater than the amount investors say they are requesting. Clearly, there is some disparity in the way each party defines customized reporting. In essence, an investor may view one reporting request as "standard," but since a private equity firm may receive different requests from different investors, the private equity firm may view the request as "customized." Over the next two years, as the competition for capital continues, the industry will likely see a convergence, and an industry norm will be established.

CFOs will play a key role in efforts to create more effective, efficient processes for collecting and reporting the information investors want. The private equity firms that best respond to the increased volume, complexity and transparency of customized reports will differentiate themselves in the eyes of the investor.
“We are raising a larger fund, but keeping the same number of staff.”

Generally, the ratios of finance employees to investment professionals and finance employees to total employees were consistent among respondents, regardless of geography and size of the firm. While the smaller firms had a slightly lower ratio of finance to investment professionals, it’s clear that CFOs across the industry are being forced to manage their teams wisely in order to do more with less. CFOs have indicated that complex structures, regulatory burdens and enhanced investor reporting have contributed to the increased workload.

The situation has not changed much from the prior year, with the finance-to-investment ratio remaining essentially the same as last year’s increase. The ratio of finance employees to investment professionals was almost exactly similar to last year’s survey findings.

### Average ratio of finance team to investment team

<table>
<thead>
<tr>
<th>Region</th>
<th>Less than $1b</th>
<th>$1b-$10b</th>
<th>More than $10b</th>
<th>Americas</th>
<th>Europe</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.36</td>
<td>0.35</td>
<td>0.69</td>
<td>0.51</td>
<td>0.31</td>
<td>0.32</td>
</tr>
</tbody>
</table>

### Average finance team headcount

<table>
<thead>
<tr>
<th>Region</th>
<th>Less than $1b</th>
<th>$1b-$10b</th>
<th>More than $10b</th>
<th>Americas</th>
<th>Europe</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3</td>
<td>8</td>
<td>49</td>
<td>13</td>
<td>7</td>
<td>5</td>
</tr>
</tbody>
</table>

### Average investment team headcount

<table>
<thead>
<tr>
<th>Region</th>
<th>Less than $1b</th>
<th>$1b-$10b</th>
<th>More than $10b</th>
<th>Americas</th>
<th>Europe</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9</td>
<td>25</td>
<td>76</td>
<td>25</td>
<td>27</td>
<td>22</td>
</tr>
</tbody>
</table>

### Average ratio of finance teams to total employees

<table>
<thead>
<tr>
<th>Region</th>
<th>Less than $1b</th>
<th>$1b-$10b</th>
<th>More than $10b</th>
<th>Americas</th>
<th>Europe</th>
<th>Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.23</td>
<td>0.20</td>
<td>0.28</td>
<td>0.25</td>
<td>0.18</td>
<td>0.18</td>
</tr>
</tbody>
</table>
Firms try to find the right level of staffing

“...as we increase our assets under management.”

For firms with less than $10 billion of assets under management, it is clear that fund accounting is the primary area of focus, requiring the largest number of employees. Portfolio analytics, valuation and investor relations consistently comprise the second tier. This is in stark contrast to the firms with assets under management greater than $10 billion, where technology and investor relations have developed as the largest consumers of headcount.

In sharp contrast, the largest private equity firms are making strategic capital investments in technology to continue to scale their operations. IT investments have moved to data management, analytics and reporting with the goal of centralizing the aggregation of important information into a central repository. A focus on systems that link portfolio monitoring with risk, compliance and accounting systems is a key to optimizing functional headcount.
"As we have grown, we have brought investor relations, portfolio analytics and compliance in-house."

Investors are clearly comfortable with outsourcing finance functions related to fund accounting, tax and treasury. These areas are ripe for consideration for CFOs looking to reduce the workload and cost of their internal infrastructure. Outsourcing for middle-office functions isn’t as acceptable, as investors don’t yet want private equity firms to relinquish control of portfolio analytics, valuation and compliance. Many investors see these functions as too closely tied to the investment professionals and believe that effective management would be impeded if they are not kept in-house. Given this current state, private equity firms should be exploring process and technology solutions to understand where they can leverage opportunities to scale these important functions.

As outsourcing increases, control reports are a useful tool for CFOs and investors alike. SOC 1 reports can provide clear evidence of a best-in-class control environment at both fund administrators and advisors.

**Investors approve outsourcing of traditional functions ...**

What are the finance functions investors prefer private equity firms keep in-house rather than outsource?

<table>
<thead>
<tr>
<th>Function</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio analytics</td>
<td>60%</td>
</tr>
<tr>
<td>Valuation</td>
<td>60%</td>
</tr>
<tr>
<td>Compliance</td>
<td>48%</td>
</tr>
<tr>
<td>Fund accounting</td>
<td>31%</td>
</tr>
<tr>
<td>Treasury</td>
<td>26%</td>
</tr>
<tr>
<td>Tax</td>
<td>12%</td>
</tr>
</tbody>
</table>

Are private equity firms relying on SOC 1 reports when issued by investment advisors or administrators?

- **Investment advisor**
  - Yes: 93%
  - No: 7%

- **Administrator**
  - Yes: 43%
  - No: 57%
... and private equity firms are starting to pay attention

How many private equity firms added internal and/or outsourced headcount in the past two years?

The opposite page highlights the functions where investors are comfortable with outsourcing. Private equity firms continue to resist outsourcing functions, including core fund accounting. This is despite the fact that investors appear willing to accept the idea of firms looking to capitalize on administrators for almost all traditional finance tasks.

In response, CFOs should explore the solutions provided by third-party vendors and better understand where they can leverage opportunities to scale back the functions currently performed in-house. Whereas in the past, investors may have expected greater internal involvement in these areas, the climate has certainly changed, presenting a window of opportunity for CFOs to re-evaluate and enhance existing business models.

“We outsource technology, tax and compliance since we lack the manpower or expertise, though I still supervise them all.”

How many private equity firms expect to add internal and/or outsourced headcount in the next two years?
In-house tax headcount is likely to increase or stay the same

How many in-house tax professionals are currently employed by private equity firms?

<table>
<thead>
<tr>
<th>Function</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>More than 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance and reporting</td>
<td>65%</td>
<td>19%</td>
<td>12%</td>
<td>4%</td>
</tr>
<tr>
<td>General partner tax planning</td>
<td>73%</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Data safety and collection</td>
<td>50%</td>
<td>50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investor transparency</td>
<td>55%</td>
<td>27%</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Transaction structuring</td>
<td>79%</td>
<td>14%</td>
<td>7%</td>
<td></td>
</tr>
</tbody>
</table>

What is the expected change in the number of tax professionals employed in-house by private equity firms in the next two years?

<table>
<thead>
<tr>
<th>Function</th>
<th>Decrease</th>
<th>Increase</th>
<th>No change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance and reporting</td>
<td>4%</td>
<td>33%</td>
<td>63%</td>
</tr>
<tr>
<td>General partner tax planning</td>
<td>33%</td>
<td>33%</td>
<td>38%</td>
</tr>
<tr>
<td>Data safety and collection</td>
<td>38%</td>
<td>62%</td>
<td>67%</td>
</tr>
<tr>
<td>Investor transparency</td>
<td>29%</td>
<td>71%</td>
<td>71%</td>
</tr>
<tr>
<td>Transaction structuring</td>
<td>20%</td>
<td>20%</td>
<td>80%</td>
</tr>
</tbody>
</table>
Outsourced tax headcount seen as more likely to remain stable

How many tax professionals are currently outsourced by private equity firms?

What is the expected change in the number of outsourced tax professionals in the next two years?

“We outsource tax functions. They are not full-time positions but still require specific expertise.”

Although many CFOs have outsourced some tax work, few appear ready to increase the number of outsourced professionals; rather, most have expressed the sense that the number of outsourced professionals is “just right.”

Investors are looking to receive tax information within four months of year-end, the better to complete their own tax processes in a timely fashion. As the number of investors and the overall number of requests increase, firms will be looking for the most effective way to provide the tax information that investors and investment professionals require. The appropriate mix of in-house and outsourced tax professionals will be different for each firm; those firms that can strike the right balance and deliver timely tax information will attract investor attention.
Data management and analysis are essential to firms and investors

How often are private equity firms collecting data from portfolio companies and subsequently reporting this data to investors?

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Collect</th>
<th>Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>Quarterly</td>
<td>42%</td>
<td>4%</td>
</tr>
<tr>
<td>Annually</td>
<td>53%</td>
<td>9%</td>
</tr>
<tr>
<td>As requested</td>
<td>1%</td>
<td>4%</td>
</tr>
</tbody>
</table>

How are private equity firms automating the collection and analysis of portfolio company data?

<table>
<thead>
<tr>
<th>Method</th>
<th>Collect</th>
<th>Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietary solution</td>
<td>16%</td>
<td>10%</td>
</tr>
<tr>
<td>Third-party solution</td>
<td>19%</td>
<td>75%</td>
</tr>
<tr>
<td>Spreadsheet</td>
<td>74%</td>
<td>74%</td>
</tr>
</tbody>
</table>

“We spent the last year focusing on the accuracy of our financial data.”

Data can be a key differentiator for private equity firms looking to enhance data governance, analysis and reporting. Critical areas to assess include historical data, risk data, regulatory data and performance management data.

Inception-to-date historical transaction and client data extends reporting capabilities for investment professionals, the middle office and finance team, while the monitoring and measurement of risk needs to focus on well-documented indexing and archiving of valuation data, market data, model assumptions and inputs. In addition, analysis and investor segmentation is a key first step when a new regulation is introduced, and transparency and timeliness in reporting rely on the ability to provide portfolio performance-related data on demand.

The development of data virtualization and cloud-based data integration tools can enable even more reliable and efficient use of data, significantly reducing dependence on spreadsheets and manual consolidation. Equally as important, investors have developed an increased appreciation for the benefits of data analysis when private equity firms respond quickly and accurately to their requests.
**Investors want their information in digital form**

How are investors currently receiving financial and tax information from private equity firms? How would they prefer to receive it?

<table>
<thead>
<tr>
<th>Currently</th>
<th>Preferred</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>82%</td>
</tr>
<tr>
<td>Tax</td>
<td>78%</td>
</tr>
</tbody>
</table>

What automated platforms are private equity firms deploying as fund accounting solutions?

<table>
<thead>
<tr>
<th>Platform</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Off-the-shelf</td>
<td>51%</td>
</tr>
<tr>
<td>Customized third-party</td>
<td>31%</td>
</tr>
<tr>
<td>Spreadsheet</td>
<td>23%</td>
</tr>
<tr>
<td>Proprietary</td>
<td>5%</td>
</tr>
</tbody>
</table>

“We are still working with spreadsheets, but converted to a new accounting system to better manage and analyze our data.”

In today’s digital world, innovation is the heart of an organization’s ability to succeed. The processes by which data is collected and analyzed to derive information comprise a complex, ever-changing, constantly updated system upon which the company’s most important decisions are based.

Integrated systems have become a strategic asset for almost all organizations. Digital takes on a wide variety of forms to fulfill a myriad of vital daily business needs: accounting, compliance, reporting, presentations and much more. Further, as the tools and technology that allow data to be used more easily and frequently continue to evolve, so does data’s role as a strategic corporate asset.

Technology needs to be managed at all levels within the organization. To optimize the effectiveness of their technology, organizations should develop and maintain policies, practices and procedures to make sure information is managed appropriately. Poor data management may lead to issues related to data integrity, accessibility, availability, auditability and data security.

As an example in which the prize is worth the effort, private equity firms that accelerate the delivery of tax information will unquestionably differentiate themselves – not only in the area of tax, but also in building a reputation for operational excellence.
Outlook
In recent years, the CFO and the finance team have moved beyond their traditional areas of expertise. They have expanded their responsibilities and taken on a more strategic role, increasing their value to both investment professionals and investors. Private equity firms have responded by including the CFO and select members of the finance team among the executives who participate in carried interest, or carry.

Today, about 90% of CFOs are participating in carry, a stark indicator of their value to private equity firms. At the same time, others in the finance function, especially the controller/VP of finance, often participate as well.

### CFOs and finance team seen as bringing value

Are private equity firms allocating carried interest to CFOs?

- **Yes**: 91%
- **No**: 9%

### What other private equity firm professionals are allocated carried interest?

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>VP of finance</td>
<td>50%</td>
</tr>
<tr>
<td>Controller</td>
<td>46%</td>
</tr>
<tr>
<td>Manager/assistant controllers</td>
<td>36%</td>
</tr>
<tr>
<td>Associate/staff</td>
<td>27%</td>
</tr>
<tr>
<td>Administrative</td>
<td>13%</td>
</tr>
</tbody>
</table>

“It’s about building up the team and rewarding them with carried interest.”
CFOs see private equity firms’ partners focusing on strategic concerns ...

What business activities are currently viewed as important by private equity firms’ partners?

- Transaction structuring: 34%
- Compliance and reporting: 26%
- Investor transparency: 19%
- General partner tax planning: 12%
- Data safety and collection: 45%

In response to regulatory concerns and investor requests, private equity firms have been shifting their focus from the tactical to the strategic, and the CFO and the finance team have seen their roles expand as a result. Today, CFOs see their partners focusing on the key strategic functions of transaction structuring, compliance and reporting, and investor transparency. The traditional finance functions, such as tax, are seen as correspondingly less important.

For CFOs and their teams, this focus means a further expansion of responsibilities, even as headcounts remain relatively static. In addition to assisting the deal professionals, CFOs are working to enhance their firm’s policies and procedures to address investors’ demands for more transparency, especially around valuation and expense allocations, and timeliness. In developing and maintaining a finance function that reaches beyond its traditional boundaries to enhance the relationship between private equity firms and their investors, CFOs are adding significant value to their firms.

“Transaction structures are critical to deliver returns to investors. As our business becomes more complex, the value of the right structure skyrockets.”
... and don't expect their priorities to change

What business activities are private equity firms’ partners expected to view as important in two years?

- **Transaction structuring**: 29% most important, 7% least important
- **Compliance and reporting**: 27% most important, 7% least important
- **Investor transparency**: 22% most important, 9% least important
- **General partner tax planning**: 12% most important, 36% least important
- **Data safety and collection**: 10% most important, 41% least important

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“We are proud of our best-in-class reporting and the corresponding priority we place on compliance.”

Asked to look into the future, CFOs saw an extension of the present: strategic functions will remain the partners’ priority, with transparency and reporting seen as slightly more important. To excel at the job, the CFO of the near future will need detailed knowledge and experience in operational and regulatory risk, portfolio monitoring and valuation.

Responding to these priorities, private equity firms have begun developing integrated valuation processes that include members of the finance team, as well as investment professionals. They have considered outsourcing functions that are seen as relatively less important. And they are working to incorporate new processes based on advanced technology, such as data repositories that can be used by professionals in functions across the firm.

As new capital flows into private equity, the burden of meeting investors’ demands for transparency and timeliness will only increase. CFOs who can help develop the most effective, efficient response will stand out.
At a time of heightened competition, CFOs must balance investor demands with the preference of private equity firms – the status quo will not suffice. In today’s environment, finance teams are working hard to differentiate themselves from the competition. They are searching for efficiencies in functions such as fund accounting, tax and valuation. However, finance teams’ staffing has not kept pace with their workloads, so CFOs must reallocate resources to meet the growing demands.

Given that investors have prioritized the importance of business functions, more and more CFOs are looking at possible outsourcing solutions to create capacity. And for those functions that remain in-house, finance teams are looking to move away from time-honored spreadsheets and manual processes and automate wherever possible.

The overall goal is to optimize operating models by maximizing productivity, improving the effectiveness and efficiency of processes, and implementing data-centric technology to scale the business as it rapidly grows.

“**My biggest challenge is the diversity of my responsibilities. It’s hard to set priorities when they all are very important.**”

CFOs expect tactical functions to drop in importance …

What traditional finance functions are currently viewed by CFOs as most and least important? Expected to be most and least important in two years?
... and plan to increase their focus on those that are strategic

What strategic finance functions are currently viewed by CFOs as most and least important? Expected to be most and least important in two years?

As private equity assumes its role as the asset class of choice, the role of the CFO is growing exponentially complex and important. CFOs have been tasked with optimizing traditional finance functions, vital to the success of the firm. And as investors have clearly acknowledged, CFOs have a mandate to extend their reach into the new definition of performance – one that is based on proven operational excellence. To conquer these formidable challenges, CFOs must move beyond tactical actions to strategic priorities. Through insights of similarities and differences conveyed in this year’s survey, there is one absolute agreement: investors and private equity firms value the CFO more than ever before.
**Investors:** most important factors you consider when managing a private equity portfolio.

- **Unfunded commitments/tail-end funds:** 14%
- **Shortening the J-curve:** 14%
- **Valuation:** 15%
- **Establishing reliable performance metrics and benchmarks:** 19%
- **Understanding and influencing drivers of returns:** 38%

**Investors:** most likely macro issues to impact private equity in the next year.

- **Negative public perceptions of private equity:** 8%
- **The LBO refinancing wall:** 9%
- **The performance of PE-backed IPOs:** 11%
- **Regulatory challenges:** 16%
- **Cheap debt pushing up prices:** 28%
- **Geographical impact:** 28%

**Investors:** most important issues affecting investor economics.

- **Paying fees to zombie funds:** 10%
- **Expense allocation/liability guarantee:** 16%
- **Managed accounts/preferred investor terms:** 18%
- **Waterfall/carried interest arrangements:** 26%
- **Current level of management fees:** 30%

**Private equity firms:** level of active engagement of tax professionals in the investment life cycle.

- **Acquisition:** 25%
- **Management:** 27%
- **Divestiture:** 24%
Investors: preferred strategies.

- 28%: Buyout
- 20%: Fund of funds/secondaries
- 20%: Venture
- 16%: Credit
- 16%: Emerging markets

Investors: geographic allocation.

- Asia: 26% (79%) Less than 30%, 21% (20%) More than 30%
- Europe: 27% (60%) Less than 30%, 40% (14%) More than 30%
- North America: 27% (95%) Less than 30%, 5% (21%) More than 30%
- Rest of world: 20% (86%) Less than 30%, 14% (27%) More than 30%

Investors: market fee arrangements.

- 22%: 2 and 20
- 42%: Less than 2 and 20
- 36%: Customized

Private equity firms: expected change in investment strategy.

- 72%: No change
- 28%: Expected change
Private equity firms: offering co-investment opportunities.

- Yes: 69%
- No: 31%

Private equity firms: expected level of co-investments offered.

- None: 11%
- 1%-10%: 15%
- 11%-25%: 13%
- More than 25%: 6%

Private equity firms: current number of investors who co-invest.

- None: 68%
- 1%-10%: 11%
- 11%-25%: 6%
- More than 25%: 1%

Private equity firms: utilizing option pricing model to value minority interests.

- Yes: 44%
- No: 41%
- No minority interests: 15%
Background and methodology
**Background**

The purpose of this survey is to document the views, insights and observations of chief financial officers (CFOs) and investors around the world representing all categories of assets under management. Topics in this survey include the current supply and demand of capital, investor due diligence, operating and regulatory risk, investor reporting, headcount, digital solutions and an outlook of strategic priorities that may help CFOs position their firms to win the competition for capital.

**Methodology**

Private Equity International conducted the research, collecting information through:

- Telephone interviews with 32 CFOs and finance executives and 50 investors, conducted from September through November 2014
- An online survey to which 116 CFOs and finance executives and 58 investors responded from August through November 2014

For several of the questions, multiple answers were allowed, resulting in responses that do not add up to 100%.

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**Respondent profile**

**Americas**
- 77% Private equity firms
- 34% Investors

**Europe**
- 15% Private equity firms
- 45% Investors

**Asia**
- 8% Private equity firms
- 21% Investors

**Investors**
- 35% Pensions/endowments
- 35% Fund of funds
- 15% Family office
- 11% Financial institutions
- 4% Sovereign wealth funds

**Private equity firms**
- More than $10b: 12%
- $1b–$10b: 52%
- Less than $1b: 36%
Global
Jeffrey Bunder
Global Private Equity Leader
+1 212 773 2889
jeffrey.bunder@ey.com

Michael Rogers
Global Deputy Private Equity Leader
+1 212 773 6611
michael.rogers@ey.com

Michael Lee
Global Wealth & Asset Management Markets Leader
+1 212 773 8940
michael.lee@ey.com

Americas
Michael Serota
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Launched in December 2001, *Private Equity International* covers its asset class with a dedicated team of specialist journalists in London, Hong Kong and New York City. Its writers and researchers bring detailed knowledge and a thorough understanding of the people, the deals, the funds and the financial trends that shape the industry. As demand for private equity in institutional portfolios continues to grow around the world, so we aim to deliver an ever more comprehensive offering of hard news and authoritative analysis of why this is happening, and where and how investors can find value in the asset class.

Drawing on an intense dialogue with a constantly expanding group of key decision-makers in the industry, we cover investor allocation strategies into the buyout, venture, growth capital, secondary and special situations segments of global private equity. We talk to the general partners, limited partners, financial intermediaries, developers and regulators who determine how capital flows into and out of the class. From this dialogue, we work hard to produce a compelling blend of hard news, incisive commentary, detailed sector and regional reports, exclusive interviews and proprietary data in a wide variety of formats. Our coverage has broken fresh ground on important industry issues, such as the often delicate relationship between general and limited partners; the quest for greater transparency in private equity fund management, the industry’s ability to add value through operational improvement at the asset level, as well as the ongoing debate around private equity benchmarking and performance measurement.

*Private Equity International* magazine appears 10 times a year and is written by the same team that delivers a rich mix of proprietary stories onto www.privateequityinternational.com five days a week. Our long-standing awards, based on a unique industry poll, recognize those whose effort and ingenuity drive the sector. The title also hosts a multitude of industry events and conferences throughout the year, and we continue to publish a series of best-selling books under the Private Equity International brand.
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We would like to extend our thanks to all those who helped make this second global private equity survey possible. We are gratified by the overwhelming response from investors and private equity firms, and we believe the results demonstrate the strength and determination of the industry and the professionals who are integral to its success. EY is proud to bear witness to the dynamic growth and promising future of private equity. We are confident that today’s CFOs, with their expanding roles and responsibilities, have the vision, aptitude and ability needed to position their businesses to win.

Private Equity International is delighted to publish, again in partnership with EY, the second edition of this industry survey. The CFO role is now more crucial than ever to the well-being of the private equity firm and satisfying the needs of all of the key stakeholders, whether they be the GP, its LPs or the regulators, has never been more challenging. Our survey looks at how CFOs are compensated, how they interact with investors and portfolio companies and how they are structuring their respective firms to perform at an institutional level and in an increasingly scrutinized regulatory environment. We look forward to continuing our work around this mission-critical business function for private equity, and share the results of our research that reflect the value CFOs provide to their organizations.